

STATE OF HAWAII—DEPARTMENT OF TAXATION
INSTRUCTIONS FOR FORM N-30
CORPORATION INCOME TAX RETURN

ATTENTION:

Hawaii has not adopted changes to federal tax law contained in the Job Creation and Worker Assistance Act of 2002 (JCWAA). Taxpayers claiming the additional federal deductions under the JCWAA must adjust the taxable income reported on the Hawaii return for those deductions. Changes not yet adopted by Hawaii include bonus depreciation; 5-year carry back of a net operating loss; wash sale rules do not apply to any loss arising from a section 1256 contract; deduction for educator expenses; and the nonaccrual-experience method only applies if services are performed in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, and consulting, or the taxpayer's average annual gross receipts for the 3 prior years does not exceed \$5 million. See Department of Taxation Announcement No. 2002-5 for more information.

World Wide Web

Hawaii tax forms, instructions, schedules, and other informational materials are available through our electronic home page on the World Wide Web. Our address for forms and information is:

www.state.hi.us/tax

Changes to Note for 2002

The 2002 State Legislature enacted a number of provisions which may affect a corporation's income tax return. These include:

Conformity of the Hawaii income tax law to the Internal Revenue Code, amended as of December 31, 2001. Federal provisions adopted include provisions relating to education IRAs, qualified tuition programs, pensions and IRAs, and exclusion for employer provided educational assistance. As noted above, changes to federal tax law enacted by Congress in 2002 have not been adopted.

The Residential Construction and Remodeling Income Tax Credit has been extended to include costs incurred before July 1, 2003. See Tax Information Release No. 2002-3 and Form N-332 for details.

Employer's liability for taxes withheld is expanded to include all employers, not just corporations.

Ethanol Investment Tax Credit. Enacted by the 2000 Legislature, but effective for tax years beginning after December 31, 2001. A refundable credit for investment in a qualifying ethanol production facility. Subject to qualifications and limitations. See Form N-324 for details.

General Instructions

FILING REQUIREMENTS.

Note — A copy of the federal corporation return is not required to be attached. For lines 1 through 5 and 7 through 10, enter the appropriate amounts from the Corporation's federal return. Writing "See attached federal return" on Form N-30 and attaching a copy of the corporation's Form 1120 is not acceptable.

WHO MUST FILE.

A Corporation Income Tax Return, Form N-30, shall be filed by every corporation, including regulated investment companies and real estate investment trusts, domestic or foreign, other than one qualifying as an S Corporation, having gross income from property owned, trade or business carried on, or any other source in Hawaii, unless expressly exempted as stated below. In addition, every domestic corporation (except one exempted) shall file this return if it has gross income from property owned, trade or business carried on, or any other source outside Hawaii, unless subjected to income tax thereon in any other jurisdiction. (Subjection to federal tax does not constitute subjection to income tax in another jurisdiction.)

An affiliated group of domestic (Hawaii) corporations may make and file a consolidated return for the taxable year in lieu of separate returns in the manner and to the extent, so far as applicable, set forth in the IRC section 1501 through 1505 and 1552, as amended. If the affiliated group includes non-Hawaii corporations and the group operates a unitary business, the taxable income of the group must be determined on a combined basis.

For tax years beginning after December 31, 1989, any corporation having a valid S Corporation election for federal income tax purposes must use Hawaii Form N-35, S Corporation Tax Return.

EXEMPTIONS.

Section 235-9, Hawaii Revised Statutes (HRS), provides that the following shall not be taxable under the Hawaii Income Tax Law:

- (1) Banks, building and loan associations, financial services loan companies, financial corporations, small business investment companies, trust companies, mortgage loan companies, financial holding companies, subsidiaries of financial holding companies as defined in chapter 241, and development companies taxable under the provisions of Chapter 241, HRS.
- (2) Insurance companies, agricultural cooperative associations and fish marketing associations exclusively taxable under the provisions of other laws.

Form N-70NP must be filed reporting "unrelated business taxable income" if federal Form 990T is required under the Internal Revenue Code.

GROSS INCOME, TAXABLE INCOME, DEFINED.

"Gross income" and "taxable income" are defined to have the same meaning as in the Internal Revenue Code of 1986, as amended, except as otherwise provided in the Hawaii Income Tax Law.

For adjustments of income as reported for federal purposes, see Instructions for Schedule J.

PERIOD TO BE COVERED BY RETURN.

Returns shall be filed for the calendar year 2002 or fiscal year beginning in 2002 and ending in 2003. This return should not be used for any other tax year. A fiscal year is an accounting period of 12 months ending on the last day of a calendar month other than December. If a taxpayer has no annual accounting period or keeps no books, or has an annual accounting period which does not qualify as a fiscal year, the return must be filed for the calendar year, except as provided in IRC section 443.

CHANGES IN ACCOUNTING PERIODS.

Hawaii has adopted IRC section 442, effective for taxable years beginning after December 31, 1977. Taxpayers are required to use federal Form 1128 in order to secure the consent of the Director of Taxation for a change in accounting period.

ACCOUNTING METHODS.

Hawaii has adopted IRC sections 446 and 447 effective for taxable years beginning after December 31, 1977.

CHANGES IN METHODS OF ACCOUNTING.

Hawaii has adopted IRC section 481, effective for taxable years beginning after December 31, 1977. In order to secure the consent of the Director of Taxation for a change in the method of accounting, a taxpayer is required to submit a copy of federal Form 3115.

WHEN AND WHERE TO FILE.

Returns must be filed on or before the 20th day of the 4th month following the close of the taxable year (if the due date falls on a Saturday, Sunday, or legal holiday, file by the next regular workday) with the taxation district office in which the corporation's principal place of business is located, or if there is no such place of business in Hawaii, then with the Department of Taxation, P.O. Box 3559, Honolulu, Hawaii 96811-3559.

Note: Under Hawaii tax law, certain tax credits must be claimed within 12 months from the close of the tax year.

If you are filing your return after the prescribed due date, the refund shown may be limited or disallowed due to the statute of limitations. In general, a claim for refund or credit for overpaid income taxes must be filed within three years after the return is filed for the taxable year, within three years of the due date for filing the return, or within two years from when the tax is paid, whichever is later. For purposes of determining whether a refund or credit is allowed, taxes paid on or before the due date of the return (e.g., estimated tax payments) are considered paid on the due date of the return, without considering an extension of time to file the return.

The official U.S. Post Office cancellation mark will be considered primary evidence of the date of filing of tax documents and payments. Hawaii has adopted the Internal Revenue Code provision to allow documents and payments delivered by a designated private delivery service to qualify for the "timely mailing treated as timely filing/paying rule." The Department of Taxation will conform to the Internal Revenue Service listing of designated private delivery services and type of delivery services qualifying under this provision. Timely filing of mail which does not bear a U.S. Post Office cancellation mark will be determined by reference to other competent evidence. The private delivery service can tell you how to get written proof of the mailing date.

The addresses and locations of the taxation district offices are as follows:

MAILING ADDRESSES

OAHU DISTRICT OFFICE
P.O. Box 3559
Honolulu, Hawaii 96811-3559

MAUI DISTRICT OFFICE
P.O. Box 913
Wailuku, Hawaii 96793-0913

HAWAII DISTRICT OFFICE
P.O. Box 1377
Hilo, Hawaii 96721-1377

KAUAI DISTRICT OFFICE
P.O. Box 1688
Lihue, Hawaii 96766-5688

LOCATIONS

OAHU DISTRICT OFFICE
830 Punchbowl Street
Honolulu, Hawaii 96813-5094
Telephone: (808) 587-6515 (Jan.-April 20)
(808) 587-4242
Toll-Free: 1-800-222-3229
TDD/TTY: (808) 587-1418
Toll-Free: 1-800-887-8974

MAUI DISTRICT OFFICE
54 S. High Street, #208
Wailuku, Hawaii 96793-2198
Telephone: (808) 984-8500

HAWAII DISTRICT OFFICE
75 Aupuni Street, #101
Hilo, Hawaii 96720-4245
Telephone: (808) 974-6321

KAUAI DISTRICT OFFICE
3060 Eiwa Street, #105
Lihue, Hawaii 96766-1889
Telephone: (808) 274-3456

Forms by Fax/Mail:
Telephone No.: (808) 587-7572
Toll-Free: 1-800-222-7572

REQUEST FOR EXTENSION.

File Form N-301 to request an automatic 6-months extension of time to file Form N-30. Form N-301 can now be filed electronically through the State's Internet portal. For more information, go to www.ehawaii.gov/efile.

The use of federal Form 7004 will be allowed as a substitute for the Application For Automatic Extension of Time To File Hawaii Corporation Income Tax Return, Form N-301. If you use the federal form, a copy of Form 7004 must be submitted to the Hawaii Department of Taxation on, or before, the original Hawaii due date of the entity's income tax return. Print the word "HAWAII" above the form title on the federal form. Show Hawaii income tax liability and tax payments on the appropriate lines of Form 7004.

PAYMENT OF TAX.

The balance of the tax due as shown on Form N-30, page 1, line 16, must be paid in full with the tax return. The tax may be paid by money order or by check made payable to the Hawaii State Tax Collector in U.S. dollars drawn on any bank in the U.S. Do not send cash. If the corporation cannot pay the full amount that is owed, you can ask to enter a payment agreement by attaching a letter to the front of the corporation's return requesting a payment agreement, with the following information: (1) The corporation's name as stated on the tax return, (2) The corporation's Federal Employer Identification Number (FEIN), (3) Type of tax (corporate income tax), and (4) Period or year. You should, however, still send in payments until you are notified by the Department.

If there is an amount of tax due on line 16 and a payment is being made with this return, Form N-201V, Business Income Tax Payment Voucher,

must be completed and attached to the return. Attach both your check or money order and Form N-201V where indicated on the front of Form N-30.

ESTIMATED TAX.

If the corporation expects to have a tax liability on its tax return for the year, a Declaration of Estimated Income Tax for Corporations, Form N-3, shall be filed for the corporation. Estimated payments are paid in four installments. Form N-3 can now be filed electronically through the State's Internet portal. For more information, go to www.ehawaii.gov/efile.

A corporation on a calendar year basis must pay the first installment, 1/4 of the estimated tax due, on or before April 20, the second installment on or before June 20, the third installment on or before September 20 of the tax year, and the fourth installment on or before January 20 of the year following the close of the calendar year. A corporation on a fiscal year basis must pay the first installment on or before the 20th day of the 4th month of the fiscal year, the second installment on or before the 20th day of the 6th month of the fiscal year, the third installment on or before the 20th day of the 9th month of the fiscal year, and the fourth installment on or before the 20th day of the 1st month following the close of the fiscal year.

In the case of any underpayment of estimated tax, there shall be added to the tax, an amount determined at the rate of two-thirds of one percent a month or part of a month on the amount of tax underpaid as provided under section 235-97(f), HRS. Willful failure to make a required declaration of estimated tax is an offense punishable as provided under section 235-105, HRS.

PENALTY AND INTEREST.

For failure to file a return on time, penalties will be assessed up to 25% of the net amount due. If an extension of time for filing has been granted, penalties will not be assessed on returns filed within the extension period. However, returns filed after the extension period will be assessed penalties from the due date. On a timely filed return, a penalty of 20% of the tax due will be assessed if any tax remains unpaid after 60 days from the due date of the return. Interest at the rate of 2/3 of 1% per month or part of a month shall be assessed on unpaid taxes and penalties assessed beginning with the first calendar day after the date prescribed for payment, whether or not that first calendar day falls on a Saturday, Sunday, or legal holiday.

SIGNATURE.

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

If a corporate officer prepared Form N-30, the Paid Preparer's space under "Signature of officer" should remain blank. If a person preparing Form N-30 does not charge the corporation a preparation fee, that person should not sign the return. Certain others who prepare Form N-30 should not sign. For example, a regular, full-time employee of the corporation such as a clerk, secretary, etc., does not have to sign. (This list is not all inclusive.)

Generally, anyone who is paid to prepare Form N-30 must sign the return and fill in the other blanks in the "Paid Preparer's Information" area of the return.

If you have questions about whether a preparer is required to sign Form N-30, please contact your district tax office.

The preparer required to sign the return MUST complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of Form N-30 to the taxpayer, in addition to the copy filed with the Department of Taxation.

The corporation may authorize the Department of Taxation to discuss its tax return with its paid preparer by checking the "Yes" box above the paid preparer's signature. Checking "Yes" will allow the Department to contact the paid preparer to answer any questions that may arise during the processing of the corporation's return. This designation does not take the place of a power of attorney for other return related matters. Form N-848 must still be used to grant a power of attorney.

AMENDED RETURN

If the corporation's return is filed and then it becomes necessary to make changes to income, deductions, or credits, file Form N-30X, Amended Corporation Income Tax Return, to change the Form N-30 already filed.

The corporation may also file an amended return on Form N-30, using the form for the year you are amending. Write the word "AMENDED" in the upper left hand corner of the return and fill in the return with all of the correct information. For returns amending an original return for the year 2002, on which a payment was made or a refund was claimed, see the instructions for lines 19 and 20. On amended returns for years prior to 2002, write on the dotted line to the right of line 14(e) "Payment (or Refund) on original return \$XX" and include this amount (add payments or subtract refunds) in the total on line 14(e).

If you are filing your return after the prescribed due date, the refund shown may be limited or disallowed due to the statute of limitations. In general, a claim for refund or credit for overpaid income taxes must be filed within three years after the return is filed for the taxable year, within three years of the due date for filing the return, or within two years from when the tax is paid, whichever is later. For purposes of determining whether a refund or credit is allowed, taxes paid on or before the due date of the return (e.g. taxes withheld from an employee's pay, or estimated tax payments) are considered paid on the due date of the return, without considering an extension of time to file the return.

Prior years' forms may be obtained from any district tax office or off the Internet. See page 1 and this page for district tax office locations and telephone numbers for forms requests and for the Department's website address.

CHANGE IN FEDERAL TAXABLE INCOME, REQUIRED REPORTS.

- (a) Section 235-101(b), HRS, requires a report to the Director of Taxation if the amount of federal taxable income is changed, corrected, adjusted or recomputed as stated in (c).
- (b) This report must be made:
 - (1) Within 90 days after a change, correction, adjustment or recomputation is finally determined.
 - (2) Within 90 days after an amended return is filed.
- (c) The report shall be made in the form of an amendment of the corporation's State tax return filed. The amended tax return shall be accompanied by a copy of the document issued by the United States changing the federal taxable in-

come of the corporation.

(d) A report within the time set out in (b) is required if:

- (1) The amount of taxable income as returned to the United States is changed, corrected or adjusted by an officer of the United States or other competent authority.
- (2) A change in taxable income results from a renegotiation of a contract with the United States or a subcontract thereunder.
- (3) A recomputation of the income tax imposed by the United States under the Internal Revenue Code results from any cause.
- (4) An amended income tax return is made to the United States.

UNITARY BUSINESS.

Every corporation carrying on a unitary business within and without Hawaii must file "Allocation and Apportionment of Income, Schedules O and P" as attachments to Form N-30. If a group of corporations operate a unitary business, the taxable income of the group must be determined on a combined basis.

Specific Instructions

These instructions are numbered to correspond to the line items of Form N-30 and its schedules. Other line items on the form are self-explanatory.

Corporation's Address

If the corporation's address is outside the United States or its possessions or territories, enter the information on the line for "City or town, State and ZIP Code" in the following order: city, province or state, postal code, and the name of the country. Do not abbreviate the country name.

Check Boxes

Check the box that applies. No box should be checked if this return is for a single corporation which is not a part of a unitary or consolidated group and is doing business only in Hawaii.

If this is a return for a combined group of corporations or a single member of a combined group, attach a list of the names, addresses and the Federal Employer Identification Numbers for all entities included in the combined group. Also attach a worksheet to the return showing the information requested on Schedule P, Apportionment Formula, for each member of the combined group. Apportionment formula factors for the return of a combined group of corporations should reflect the totals for all members of the group. Factors for the return of a single member of a combined group should include the group's factor information in the denominator and the member's information in the numerator.

Taxable Income

Lines 1 - 5 and 7 - 10

Enter on lines 1 through 5 and 7 through 10, the requested amounts as they appear on the Corporation's federal return.

Do not try to mathematically compute Hawaii taxable income using only the amounts appearing on lines 1 through 10 as this will not result in a correct calculation.

If this is a return of a corporation with business operations in several states including Hawaii and the income reported on this return is determined using separate accounting, attach a schedule of the

Corporation's Hawaii income and expenses. Enter on lines 1 through 5 and 7 through 10 applicable amounts from this schedule instead of from the Corporation's federal return.

Line 6(a)

Capital Gain Net Income

Every sale or exchange of a capital asset must be reported in detail on Hawaii Schedule D, even though no gain or loss is indicated. Enter the capital gain net income from Hawaii Schedule D, line 14. See the instructions for Schedule J, lines 2(d) and 10 for possible adjustment.

CAUTION — IN 1997, CONGRESS ENACTED LEGISLATION WHICH MADE NUMEROUS CHANGES TO THE FEDERAL INCOME TAX LAW RELATING TO THE CLASSIFICATION AND TAXATION OF CAPITAL GAINS. HAWAII HAS NOT ADOPTED ANY OF THESE CHANGES.

COMMODITY FUTURES AND STRADDLE POSITIONS.

To report gains and losses from regulated futures contracts and straddles, use federal Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

Line 6(b)

Net Gain Or (loss)

Enter the net gain or loss from Hawaii Schedule D-1, Sales of Business Property, Part II, line 20. See the instructions for Schedule J, lines 2(d) and 10 for possible adjustment.

Credits

Line 12

Total Nonrefundable Credits from Schedule CR.

Enter on this line the total from Schedule CR, line 12. Descriptions of the nonrefundable credits follow.

Credit for Energy Conservation

Each corporate resident taxpayer who files a corporate income tax return may claim a tax credit against its corporate income tax liability for a solar or wind energy system, heat pump, or ice storage system, installed and placed in service during the taxable year. Additions to existing systems (e.g., additional solar energy panels) and systems for a second home qualify for this credit. The cost of repairs to existing systems, however, do not qualify for this credit. The tax credit shall apply only to the actual cost of the solar or wind energy system, heat pump, or ice storage system, including their accessories and installation, and shall not include the cost of consumer incentive premiums unrelated to the operation of the system or offered with the sale of the system or heat pump (such as "free gifts", offers to pay electricity bills, or rebates).

If federal energy credits for systems similar to any of those below are established after June 30, 1998, but before July 1, 2003, the State tax credit shall be reduced by the amount of the applicable federal energy credit.

The tax credit may be claimed for the following energy conservation systems installed and placed in service after 12/31/89 (12/31/90 for ice storage system), but before 7/1/2003:

Type of Energy Conservation System	Tax Credit Rate
1. Wind energy systems	20% of the actual cost of the system.
2. Solar energy systems	
a. New and existing single family residential buildings	the lesser of 35% of the actual cost of the system or \$1,750.
b. New and existing Multi-unit buildings used primarily for residential purposes.	Per building unit: The lesser of 35% of each unit's actual cost of the system or \$350.
c. New and existing hotel, commercial and industrial facilities.	35% of the actual cost of the system.
3. Heat pumps	
a. New and existing single family residential buildings	the lesser of 20% of the actual cost of the system or \$400.
b. New and existing Multi-unit buildings used primarily for residential purposes.	Per building unit: The lesser of 20% of each unit's actual cost of the system or \$200.
c. New and existing hotel, commercial and industrial facilities.	20% of the actual cost of the system.
4. Ice storage systems	50% of the actual cost of the system.

Tax credits that exceed your income tax liability are not refunded but may be used as a credit against your income tax liability in subsequent years until exhausted.

To determine this tax credit, use Form N-306 and attach the form to the income tax return Form N-30 and enter on Schedule CR, line 2, the amount of credit claimed.

Enterprise Zone Tax Credit

A qualified enterprise zone business is eligible to claim a credit for a percentage of taxes due the State attributable to the conduct of business within a zone and a percentage of the amount of unemployment insurance premiums paid based on the payroll of employees employed at the business firm establishments in the zone. The applicable percentage is 80% the first year; 70% the second year; 60% the third year; 50% the fourth year; 40% the fifth year; 30% the sixth year; and 20% the seventh year. This credit is not refundable and any unused credit may NOT be carried forward. Attach Form N-756, Enterprise Zone Tax Credit, to support your claim for this credit to Schedule CR.

Low-Income Housing Tax Credit

Hawaii's low-income housing tax credit is equal to 30% of the federal credit for qualified buildings located in the State of Hawaii. Attach Form N-586, Tax Credit for Low-Income Housing, to Schedule CR.

Contact the Housing and Community Development Corporation of Hawaii for qualifying requirements and further information.

Credit For Employment of Vocational Rehabilitation Referrals

The amount of the tax credit for the taxable year shall be equal to 20% of the qualified first-year wages for that year. The amount of the qualified first-year wages which may be taken into account

with respect to any individual shall not exceed \$6,000.

“Qualified wages” means the wages paid or incurred by the employer during the taxable year to an individual who is a vocational rehabilitation referral and more than one-half of the wages paid or incurred for such an individual is for services performed in a trade or business of the employer.

“Qualified first-year wages” means, with respect to any vocational rehabilitation referral, qualified wages attributable to service rendered during the one-year period beginning with the day the individual begins work for the employer.

The credit allowed shall be claimed against net income tax liability for the taxable year. A tax credit which exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. Attach Form N-884 to Schedule CR.

Refer to Form N-884 for further information.

Individual Development Account Contribution Tax Credit

Taxpayers subject to Hawaii's net income tax who contribute matching funds for individual development accounts may be eligible for this credit. See Form N-320 for more information. Attach Form N-320 to Schedule CR.

Technology Infrastructure Renovation Tax Credit.

An income tax credit is allowed equal to 4% of renovation costs incurred to provide a commercial building with technology-enabled infrastructure. Renovation costs are costs incurred after December 31, 2000, to plan, design, install, construct, and purchase technology-enabled infrastructure equipment to provide a commercial building with technology-enabled infrastructure. Technology-enabled infrastructure means: (1) high speed telecommunications systems that provide Internet access, direct satellite communications access, and videoconferencing facilities; (2) physical security systems that identify and verify valid entry to secure spaces, detect invalid entry or entry attempts, and monitor activity in these spaces; (3) environmental systems to include heating, ventilation, air conditioning, fire detection and suppression, and other life safety systems; and (4) backup and emergency electric power systems. The credit is available for taxable years beginning after December 31, 2000, and shall not be available for taxable years beginning after December 31, 2005. See Form N-326 for more information.

Credit for School Repair and Maintenance.

A credit is allowed to licensed contractors, pest control operators, and professional engineers, architects, surveyors and landscape architects who are subject to Hawaii's income tax for contributions of in-kind services for the repair and maintenance of public schools. The credit shall be an amount equal to 10% of the value of the services contributed. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Certain other limitations and restrictions apply. See Form N-330 for more information.

High Technology Business Investment Tax Credit.

A credit is allowed for investment in a qualified high technology business for the taxable year in which the investment was made and the following four years. The credit is 35% of the investment in the year the investment is made, 25% for the first year

following the year the investment was made, 20% for the second year following the investment, and 10% for each of the third and fourth years following the investment. The credit is subject to limitations and recapture requirements. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. See Form N-318 for details.

Hotel Construction and Remodeling Tax Credit

Each taxpayer subject to Hawaii's net income tax and transient accommodations tax may claim a hotel construction and remodeling tax credit for each qualified hotel facility located in Hawaii. The credit is 10 percent of the qualified construction or renovation costs incurred during the taxable year for costs incurred before July 1, 2003 (nonrefundable), and 4 percent of costs incurred after June 30, 2003 (refundable). See Form N-314 for more information.

Residential Construction and Remodeling Tax Credit

Each homeowner, developer, or lessee subject to Hawaii's net income tax may claim a residential construction and remodeling tax credit of 4 percent of the qualified construction or renovation costs incurred during the taxable year for residential real property located in Hawaii. The tax credit is available for taxable years beginning after December 31, 2000, for qualified construction or renovation costs incurred after that date and before July 1, 2003. See Tax Information Release No. 2002-3 and Form N-332 for more information.

Line 14(b)

Estimated Taxes

Do not include on this line payments made by the corporation on the disposition of Hawaii real property under the provisions of section 235-68, HRS, on Forms N-288 and N-288A, net of refunds from Form N-288C or the corporation's share of income taxes withheld, net of refunds, by pass-through entities on the disposition of Hawaii real property. These amounts will be reported on Schedule CR. Attach a copy of the corporation's Hawaii Schedule K-1 for the amount claimed.

Line 14(d)

Total Refundable Credits from Schedule CR

Enter on this line the total from Schedule CR, line 21. Descriptions of the refundable credits follow.

Capital Goods Excise Tax Credit

A 4% tax credit is available to Hawaii businesses on qualifying business property acquired and placed in service during the taxable year. See Tax Information Release No. 2001-4 and Form N-312 for more information. To claim this credit, complete Form N-312 and Schedule CR.

Fuel Tax Credit for Commercial Fishers

Each principal operator of a commercial fishing vessel may claim an income tax credit against the corporate income tax for certain fuel taxes paid during the year. The tax credit shall be an amount equal to the fuel taxes imposed under section 243-4(a), HRS, and paid by the principal operator during the taxable year.

Taxpayers claiming this credit must complete Form N-308 and Schedule CR.

Motion Picture and Film Production Income Tax Credit

Section 235-17, HRS, provides that a taxpayer may claim an income tax credit of up to 4% of costs incurred, and of up to 7.25% of transient accommodations costs incurred in Hawaii in the production of motion picture or television films. To claim this credit, complete Form N-316 and Schedule CR. Claims for this credit, including any amended claims, must be filed on or before the end of the twelfth month after the close of your tax year.

Hotel Construction and Remodeling Tax Credit

Hotel Construction and Remodeling Tax Credit

See discussion under nonrefundable credits.

Tax Credit for Research Activities

This 20% credit is based on the federal credit for research activities except that the federal base amounts are excluded and research must have been conducted in Hawaii. This credit is available for taxable years beginning after December 31, 2000 and before January 1, 2006. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. See Form N-319 for details.

Drought Mitigating Water Storage Facility Tax Credit

A refundable credit in the amount of 4% of qualifying costs incurred and paid by farmers or ranchers for a qualified water storage facility. A qualified water storage facility is a water storage facility that is part of a conservation plan approved by the local soil and water conservation district. Qualifying costs are any costs incurred and paid by the taxpayer after December 31, 2000, for the new construction of a qualified water storage facility or the repair or reconstruction of an existing qualified water storage facility, including the costs of new equipment related to the construction or repair of the new or existing qualified water storage facility, but does not include amounts received through grant or subsidy from any federal or state government. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. See Form N-328 for details.

Ethanol Investment Tax Credit

Enacted by the 2000 Legislature, but effective for tax years beginning after December 31, 2001. A refundable credit for investment in a qualifying ethanol production facility. Subject to qualifications and limitations. See Form N-324 for details.

Line 15

Estimated Tax Penalty

A corporation that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a corporation is subject to the penalty if the tax liability is \$500 or more, and the corporation did not pay the smaller of (a) 100% of the tax liability for the current taxable year, or (b) 100% of the corporation's prior year's tax liability. Refer to IRC section 6655 for more information.

Form N-220, Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes an underpayment of tax penalty and to figure the amount of the penalty. You must also complete and attach Form N-220 to the corporate tax return (Form N-30) if the corporation does not owe an underpayment of estimated tax penalty and: (1) the annualized income or adjusted seasonal installment

method is used to compute the estimated tax, or (2) the corporation is a "large corporation" computing its first required estimated tax installment based on the prior year's tax liability. A "large corporation" is defined as a corporation (other than a S corporation) that had, or its predecessor has, taxable income of \$1 million or more for any of the 3 tax years preceding the current tax year.

Form N-220 includes the standard and optional annualized income installment method periods that may be used to determine the estimated tax of certain corporations, S corporations, and tax exempt organizations subject to the unrelated business income tax. If the taxpayer is electing to use one of the optional annualization periods on federal Form 8842 for State estimated income tax purposes, a copy of this form must be submitted to the District Tax Assessor by the 20th day of the 4th month of the tax year for which the election applies. Refer to the Instructions for Form N-220.

Line 16

If line 16 shows a tax due, pay this amount in full. Send payment to the taxation district office to which the Declaration of Estimated Tax was made or would have been made. Do not send cash. If the corporation cannot pay the full amount that is owed, you can ask to enter a payment agreement by attaching a letter to the front of the corporation's return requesting a payment agreement, with the following information: (1) The corporation's name as stated on the tax return, (2) The corporation's Federal Employer Identification Number (FEIN), (3) Type of tax (corporate income tax), and (4) Period or year. You should, however, still send in payments until you are notified by the Department.

If there is an amount of tax due on line 16 and a payment is being made with this return, Form N-201V, Business Income Tax Payment Voucher, must be completed and attached to the return. Attach both your check or money order and Form N-201V where indicated on the front of Form N-30.

Amended Returns

Complete the corporation's amended return using corrected amounts through line 17, then go to line 19.

Line 19

Amount paid (overpaid) on original return

Enter on line 19 the amount paid on the corporation's original 2002 return (from line 16 of the **original** return) or the amount overpaid (from line 17 of the **original** return). Enter overpayments in ().

If the original return has an overpayment part, or all, of which was credited to 2003 estimated taxes, the amount that was credited on the original return cannot be changed unless (1) the 2003 return has not yet been filed, and (2) the amended return shows a balance due. In this situation, the corporation may request that the amount credited to 2003 estimated taxes be applied to the balance due on the amended return by attaching a written request to the amended return.

Line 20

BALANCE DUE (REFUND) with amended return

If no amount was entered on line 19, enter on line 20 the amount, if any, from line 16 or line 17 of the **amended** return. If there is an amount on line 19, and that amount is:

a. A payment and there is an amount on line 16 of the **amended** return, subtract the amount on line 19 from the amount on line 16 and enter the difference on line 20. If the amount on line 19 is larger than the amount on line 16, enter the difference on line 20 in ().

b. A payment and there is an amount on line 17, add these amounts and enter the total in () on line 20.

c. An overpayment and there is an amount on line 16, add the amounts on lines 16 and 19. This is the amount the corporation owes on its amended return.

d. An overpayment and there is an amount on line 17, subtract the amount on line 19 from the amount on line 17 and enter the difference on line 20. If the amount on line 19 is larger than the amount on line 17, the difference is the amount the corporation owes on its amended return. If the amount on line 19 is less than the amount on line 17, enter the difference in (). This is the corporation's overpayment on the amended return. Do NOT enter this amount on line 18(b).

If the corporation has an overpayment on its amended return, wants to have some or all of the overpayment credited to its 2003 estimated tax, line 18(a) on the corporation's original return was blank, and its 2003 return has not yet been filed, determine the amount of the overpayment available before entering any amount on line 18(a). Enter the amount of the available overpayment that is to be credited to estimated tax on line 18(a). Subtract the amount credited to estimated tax from the amount of overpayment available and enter the difference on line 20 in (). Do not enter any amount on line 18(b). Be sure that the sum of the amounts entered on lines 18(a) and 20 is not more than the overpayment available.

If the corporation has an amount due on its amended return, make check or money order payable to *Hawaii State Tax Collector*. Also complete Form N-201V, Business Income Tax Payment Voucher, and attach this form with the check or money order to the front of Form N-30.

Line 21

If the corporation is a qualified high technology business which sold a qualifying net operating loss, enter the amount of sales proceeds on this line. Also, attach a statement to the corporation's tax return with the following information: 1) name(s) and identification number(s) of the person(s) to whom you sold the net operating loss, and 2) the amount of the net operating loss sold to each person.

Schedule C Income from Dividends

Column 1

Enter name of corporations paying dividends. Attach a schedule if more room is needed.

Column 2

Enter dividends received from national banking associations in column 2 and in column 5. Also enter dividends received from qualified high technology businesses on shares of stock obtained through stock options or warrants in these columns.

Column 3

Enter qualifying dividends as defined in IRC section 243(b) received by members of an affiliated group including foreign affiliates in column 3 and in column 5. Dividends received from foreign corporations should be reported net of the IRC section 78 "gross-up."

Column 4

Enter the amount of dividends received by a small business investment company operating under the Small Business Investment Act of 1958 in column 4 and in column 5.

Column 5

Enter dividends received from all other corporations. Dividends received from foreign corporations should be reported net of the IRC section 78 "gross-up." If your mutual fund has provided you with a statement that some of the dividends received from the mutual fund qualify for the dividends received deduction, the amount of qualifying dividends may be included in column 5. Other taxable dividends received from the mutual fund (other than capital gains dividends) should be reported on line 10.

Schedule J

Adjustments to Income and Tax Computation

ADJUSTMENTS TO INCOME AS REPORTED FOR FEDERAL PURPOSES.

The following instructions set forth in general the adjustments to be made to the taxable income before net operating loss deduction and special deductions as shown on U.S. Corporation Income Tax Return, Form 1120. They do not purport to set forth each and every adjustment to be made. Specific questions should be submitted in writing for rulings.

Note: The amount of the Capital Goods Excise Tax Credit, the Technology Infrastructure Renovation Tax Credit, and/or the Drought Mitigating Water Storage Facility Tax Credit allowed and claimed is to be treated as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income. Alternatively, the basis of eligible property for depreciation or ACRS purposes for State income taxes shall be reduced by the amount of the credit allowable and claimed.

The instructions numbered 1 through 20 correspond with the line numbers on Schedule J, page 2 of the return:

Line 1. For unitary business taxpayers computing taxable income by an allocation and apportionment of income, also enter this amount on Form N-30, Schedule O, line 1. Skip lines 2 through 11 of Form N-30, Schedule J, however, adjustments related to the Credit for the Employment of Vocational Rehabilitation Referrals, line 2(c), or the election to amortize natural disaster losses under section 235-7(f), HRS, (line 8) should be entered on Form N-30, Schedule O, State Adjustments section or the Income Wholly Attributable to Hawaii Subject to Tax section (Schedule O, page 2), as applicable.

Line 2(a). Enter taxable dividends from Schedule C, line 11.

Line 2(b). List deductions taken for federal tax purposes but not allowable, or allowable only in part, for Hawaii tax purposes. For example, deductions connected with income not taxable for Hawaii purposes.

Contributions — The total amount of contributions claimed may not be more than 10% of taxable income as shown on Schedule J, line 12 (for taxpayers apportioning income, see Instructions for Schedules O and P (Form N-30)) computed without regard to the following:

1. any deduction for contributions;
2. deductions allowed under IRC section 249; and
3. any net operating loss carryback to the tax year under IRC section 172, with modifications as provided under section 235-7(d), HRS.

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 years.

A contribution carryover is not allowed, however, to the extent that it increases a net operating loss carryover. See IRC section 170(d)(2)(B).

If a contribution carryover is included, show the amount and how it was determined.

Line 2(c). Enter the amount of the Credit for the Employment of Vocational Rehabilitation Referrals claimed, attributable to qualifying wages for the current year, on Schedule CR.

Line 2(d). Other adjustments. List all other adjustments here. Included here would be income from non-Hawaii state or municipal bonds. Any interest received from other states and their political subdivisions ("municipal" bond interest) is subject to tax. If the amount of Hawaii net capital gains from Hawaii Schedule D is larger than the capital gain net income shown on the corporation's federal return, include the difference in the amount shown on this line. If the net gain from Hawaii Schedule D-1 is larger (or the loss is smaller) than the amount shown on Part II, line 18 of the taxpayer's federal Form 4797, include the difference on this line.

As noted on page 1 of these instructions, Hawaii has not adopted changes to federal tax law contained in the JCWAA. This Act amended IRC section 168 to provide for a first-year "bonus" depreciation deduction. If a depreciation deduction is claimed for Hawaii tax purposes, the corporation must: (a) complete a federal Form 4562 for Hawaii tax purposes using the federal depreciation guidelines in effect before the adoption of the JCWAA, (b) attach the completed federal Form 4562 to the Hawaii tax return, (c) make the necessary adjustments to the Hawaii tax return for the depreciation difference between federal and Hawaii, and (d) attach to the Hawaii tax return any worksheet showing the computation of the adjustments. The corporation must also keep records of the differences in the asset's depreciable basis for federal and Hawaii tax purposes.

Line 5. Enter here the entire amount of dividends received as reported on the corporation's federal return and included on page 1, line 8.

Line 6. Enter any interest received on obligations of the United States included in the federal return. Interest received from obligations of the U.S. is exempt.

Line 7. If line 1 includes income of a foreign corporation from sources outside Hawaii, the excess of income over deductions attributed to this income must be entered on line 7. If line 1 includes income of a domestic corporation from sources outside Hawaii which has been subjected to income

tax in any other jurisdiction, the excess of this income over related deductions must be entered on line 7. Losses from sources outside of Hawaii must be added back.

For unitary business taxpayers allocating and apportioning income to Hawaii using Form N-30, Schedules O and P, do not deduct net income from sources outside Hawaii on this line.

Line 8. At the election of the taxpayer, losses of property as the result of tidal wave, hurricane, earthquake, or volcanic eruption, or as the result of flood waters overflowing the banks or walls of a river or stream, or from other natural disasters, to the extent of the amount deductible under Chapter 235, HRS, not compensated for by insurance or otherwise, may be prorated in equal installments over a period of five years, the first such year being the calendar or fiscal year of the taxpayer in which such loss occurred. Enter such amortization here if the election is made for Hawaii purposes.

Line 9. Enter here the net operating loss sustained in the preceding year determined in accordance with section 235-7(d), HRS.

Effective with tax returns filed for taxable years beginning after December 31, 1981, a net operating loss carryback or carryover shall be allowed provided such loss is allowed under IRC section 172.

As noted on page 1 of these instructions, Hawaii has not adopted changes to federal tax law contained in the JCWAA. This Act amended IRC section 172(b) to allow a net operating loss in a tax year ending in 2001 or 2002, to be carried back five years (versus the current two year carry back period). A Hawaii taxpayer with a net operating loss in either of these years may carry back the loss only two years for Hawaii tax purposes.

If the corporation purchased a qualifying net operating loss from a qualified high technology business, include the amount of the purchased net operating loss on this line. If the corporation is claiming a deduction for an NOL purchased from a qualified high technology business, attach a statement to the corporation's tax return with the following information: 1) name(s) and identification number(s) of the qualified high technology business(es) from which the net operating loss(es) was purchased; 2) amount of the net operating loss purchased from each qualified high technology business; and 3) the amount paid to the qualified high technology business for the net operating loss.

Line 10. Other deductions or adjustments. For example, political contributions not in excess of \$250 in the year to a central or county committee of a political party whose candidates shall have qualified by law to be voted for at the immediately previous general election. Also, Subpart F income (IRC sections 951-964) which is not adopted by Hawaii. Contributions to a qualified group legal services plan are deductible.

If the amount of Hawaii net capital gains from Hawaii Schedule D is less than the capital gain net income shown on the corporation's federal return, include the difference in the amount shown on this line. If the net gain from Hawaii Schedule D-1 is less (or the loss is larger) than the amount shown on Part II, line 18 of the taxpayer's federal Form 4797, include the difference on this line.

If the corporation claimed employment credits on its federal return for which wage expense was reduced pursuant to section 280C, include on line 10 the amount of the required reduction of wages.

For Hawaii income tax purposes, starting after 1999, taxable income does not include amounts received by a qualified high technology business as royalties and other income derived from patents,

copyrights, and trade secrets owned by the qualified high technology business which were developed and arose out of a qualified high technology business. Expenses related to this income are deductible. "Qualified high technology business" means a business conducting more than 50% of its activities in qualified research. "Qualified research" means the same as in section 41(d) of the Internal Revenue Code, or the development and design of computer software using fourth generation or higher software development tools or native programming languages to design and construct unique and specific code to create applications and design databases for sale or license, biotechnology, performing arts products, sensor and optic technologies, ocean sciences, astronomy, or nonfossil fuel energy-related technology. All income earned and proceeds derived from stock options or stock, including stock issued through the exercise of stock options or warrants, from a qualified high technology business or from a holding company of a qualified high technology business by an employee, officer or director of the qualified high technology business, or investor who qualifies for the high technology business investment tax credit is excluded from income. If the corporation is a qualified high technology business and has included royalties and other income derived from patents, copyrights, and trade secrets the corporation owns in the income reported on line 1, these amounts should be included in the deductions shown on line 10. If the amount reported on line 10 includes these royalties and other income from patents, copyrights, and trade secrets, these amounts should be identified by attaching a separate schedule or listing.

If the corporation is a qualified high technology business which sold a qualifying net operating loss, include as a deduction the amount of the proceeds from the sale. If the corporation purchased a qualifying net operating loss, include as a deduction the amount paid for the net operating loss.

Line 13. For unitary business taxpayers using Form N-30, Schedules O and P, enter the amount of net capital gains from Schedule O, lines 26 and 31(b), if any.

Line 15. Tax computations. If the corporation has no net capital gains and if Schedule J, line 12 is not over \$25,000, the tax is 4.4% of line 12; if line 12 is over \$25,000 but not over \$100,000 the tax is 5.4% of line 12 less \$250; if line 12 is over \$100,000 the tax is 6.4% of line 12 less \$1,250.

If the corporation has a net capital gain (Schedule D, line 16), then the lesser of the following is used to compute the tax: (1) The net capital gains, line 15(a), are taxed at 4.0%, or if the taxable income exceeds the net capital gains, line 14, the excess is taxed at 4.4% if not over \$25,000, 5.4% if over \$25,000 but not over \$100,000 less \$250, and 6.4% on all over \$100,000 less \$1,250; or (2) Compute the tax on all taxable income, line 12, using the rates listed on line 15(b).

Line 17. Recapture of Capital Goods Excise Tax Credit. If property for which a credit has been taken ceases to be eligible property or is disposed of, recapture of all, or part, of the credit received may be necessary. See the Instructions for Form N-312, Part II for more information. Enter the amount of any recapture on line 17.

Line 18. Recapture of Low-Income Housing Tax Credit. Recapture may be necessary if: you dispose of a building or an ownership interest in it; there is a decrease in the qualified basis of the building from one year to the next; the building no longer meets the minimum set-aside requirements of IRC section 42(g)(1), the gross rent requirements of IRC section 42(g)(2), or the other requirements

for the units comprising the set-aside. See the Instructions for Form N-586 for more information. Enter the amount of any recapture on line 18.

Line 19. Recapture of the High Technology Business Investment Tax Credit. Recapture may be necessary if, at the close of any taxable year in the five-year period during which the credit may be claimed, the business no longer qualifies as a qualified high technology business; the business or an interest in the business has been sold by the taxpayer investing in the qualified high technology business; or the taxpayer has withdrawn the taxpayer's investment wholly or partially from the qualified high technology business. The recapture shall be equal to 10 % of the amount of the total tax credit claimed in the preceding 2 taxable years. See Form N-318 for details.

Line 21. Include the corporation's **Deferred LIFO Recapture Tax** on line 21. The corporation may have to include a LIFO recapture amount in income if it:

1. Used the LIFO inventory method for its last tax year before the first tax year for which it elected to become an S corporation or

2. Transferred LIFO inventory assets to an S corporation in a nonrecognition transaction in which those assets were transferred basis property.

The LIFO recapture amount is the amount by which the C corporation's inventory under the FIFO method exceeds the inventory method under the LIFO method at the close of the corporation's last tax year as a C corporation (or for the year of the transfer, if 2 above applies). This amount is included in other income reported on line 7 of the corporation's income tax return. For more information, see Regulations section 1.1363-2 and Rev. Proc. 94061, 1994-2 C.B. 775.

The deferred LIFO recapture tax is the part of the tax on the LIFO recapture adjustment that will be deferred and paid with Form N-35 in the future. To figure the deferred tax, first figure the total LIFO recapture tax. Follow the steps below to figure the total LIFO recapture tax and the deferred amount.

Step 1. Figure the tax on the corporation's income including the LIFO recapture amount. (Complete Schedule J through line 16, but do not enter a total on line 21 yet.)

Step 2. Using a separate worksheet, complete Schedule J again, but **do not** include the LIFO recapture amount in the corporation's taxable income.

Step 3. Compare the tax in Step 2 to the tax in Step 1. The difference between the two is the LIFO recapture tax.

Step 4. Multiply the amount figured in Step 3 by 75%. The result is the deferred LIFO recapture tax.

Attach a schedule to the return showing this computation. The amount computed in Step 4 will be subtracted from the sum of lines 16 and 20. Enter the difference on line 21 and write "Section 1363 deferred tax - \$XXX" on the dotted line next to line 21.